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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 004598

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E.O. 12958: DECL: 11/16/2015

TAGS: [PGOV](#) [PREL](#) [MARR](#) [MASS](#) [TW](#)

SUBJECT: TAIWAN'S DEFENSE BUDGET AND ELECTION POLITICS

REF: A. TAIPEI 4415

[1](#)B. TAIPEI 3778

Classified By: AIT Director Douglas H. Paal, Reason(s):
1.4 (B/D)

[1](#)1. (C) Summary. The cancellation last week of funding for PAC-III missiles and of preparatory funds for the Defense Special Budget was in part a product of the increasingly contentious political campaign for Taiwan's December 3 elections. There is still scattered talk of possible forward movement on the Defense Special Budget (P-3C surveillance aircraft and diesel electric submarines) after the election on December 3, but few government officials give much credence, having been burned several times by such promises. End Summary.

[1](#)2. (C) The opposition pan-Blue coalition (Kuomintang-KMT and People First Party-PFP) used its parliamentary majority in a November 9 classified meeting of the Joint Budget-Defense Committee to slash two budget items in the regular defense budget: NT \$10.9 billion (US \$320 million) for PAC-III missiles and NT \$273 million (US \$12 million) for preparatory funds for all three weapons systems. Reduction of funding is the only way legislators can make changes in the regular budget proposal (Ref A), and Pan-Blue legislators took that power to the limit, effectively "zeroing out" these two budget items.

Blue Promises, Election Politics

[1](#)3. (C) Immediately after the vote on November 9, pan-Blue legislators began calling for revision of the Defense Procurement Special Budget, consisting of P-3C surveillance aircraft and diesel electric submarines. Several specifically urged that the P-3C aircraft be shifted into the regular defense budget via an "extra budget" (Ref A), and that the government reconsider its proposed acquisition of diesel electric submarines. KMT legislator and LY Defense Committee member Su Chi insisted to AIT that the KMT is not opposed to defense procurement per se, but had "no choice" but to block the PAC-III's because the March 2004 defense referendum had "vetoed" acquisition of "additional anti-missile equipment." (Comment: Su was the developer and main proponent of the referendum rejection argument. End Comment.) Su pointed out that immediately after the November 9 LY vote, he signed a petition drafted by ruling Democratic Progressive Party (DPP) legislators Lee Chung-wen and Shen Fa-hui calling for the government to shift 58 defense budget items, which had been crowded out of the 2007 regular defense budget by the PAC-III missiles, back into the defense budget.

(Comment: Legislator Shen Fa-hui told AIT that he and Lee do not know the identity of the 58 items, which is classified at this time. MND officials, he explained, had privately told Lee and him that MND had removed "58 defense items" from the original draft of the 2007 defense budget in order to make way for the PAC-III missiles after President Chen decided to shift them into the regular budget, as reported in Ref B. After discussions with LY staffers and several legislators, it appears the only way the "58 defense items" could be put back into the regular defense budget is through an "extra budget" submitted by the Executive Yuan to the spring LY session, as described in Ref A.)

[1](#)4. (C) Su, apparently one of KMT Chairman Ma Ying-jeou's closest foreign policy advisors, told AIT that he felt "pretty sure" Chairman Ma would agree to support an increased regular defense budget with the 58 omitted items. Ma, Su added, might even support funding for the P-3C surveillance aircraft, but not for the submarines to which Su himself is opposed. Su said that he has argued within the KMT legislative caucus that P-3C's would be useful to Taiwan, are available and relatively cheap, and can link to U.S. anti-submarine warfare (ASW) systems. (Comment: Shuai Hua-min, another KMT legislator influential on defense matters but of uncertain influence with Chairman Ma, however, holds precisely the opposite view on these two weapons systems. End Comment.)

Low-Key Green Response

[1](#)5. (C) MND has taken a low-key response to the opposition

cancellations of the PAC-III and preparatory budgets. Noting that opposition legislators had slashed the PAC-III missiles because of the March 2004 defense referendum rather than because they oppose procurement to meet Taiwan's defense needs, Defense Minister Lee Jye announced that MND will wait the requisite three years before reinserting the PAC-III missiles into the regular defense budget. (Note: Taiwan's Referendum Act requires a three-year delay from the date of publication of referendum results before a "vetoed" item can be revived, which would appear to mean the MND could not raise the PAC-III missiles until the 2008 budget which will be submitted in September 2007, after the March 2008 presidential election. End Note.)

16. (C) MND Special Advisor York Chen (Wen-cheng), however, told AIT that MND Lee is deeply frustrated by the November 9 vote and "just plain tired." In spite of Lee's best-face-forward response, Chen said, neither Lee nor anyone in MND held out any hope that the opposition will change its tune on the Defense Special Budget weapons systems, regardless of who wins the December 3 elections. Rather, he surmised that the KMT will just wait until after the 2008 presidential elections to make any substantive moves on Taiwan defense. Meanwhile, he noted ruefully, the real winner is Beijing, which has achieved everything it could have hoped for: U.S. defense cooperation with Taiwan has been interrupted and the Defense Special Budget has been blocked.

Way Forward

17. (C) MND and the Chen government put all of their eggs in the Defense Special Budget and its spin-off, the PAC-III shift into the regular budget. There appears to be little planning for alternatives. Vice Defense Minister Michael Tsai (Ming-hsien) acknowledged to the Deputy Director that

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Taiwan has no "Plan B" if the Defense Special Budget weapons systems package remains blocked, other than its vague promise to work to increase the regular defense budget to three percent of GDP by 2008, a promise that will require legislative support from the opposition Pan-Blue.

Comment: Once Bitten

18. (C) LY cancellation of the PAC-III budget had been a possibility since the beginning of the current LY session in September, when it became clear that Pan-Blue promises of support for the PAC-III's if moved to the regular defense budget would not materialize. The vote at this time, however, is probably a product of the growing contentiousness between KMT and DPP with just three weeks remaining before the December 3 elections. VMND Tsai acknowledged to the Deputy Director that the election strategy of his ruling DPP, particularly President Chen's broadside against PFP Chairman James Soong in late September, had increased antagonism between DPP and the Pan-Blue opposition and reduced the likelihood of cooperation. The suggestion that MND should move the P-3C's into the regular budget has not elicited much interest in the government -- MND moved the PAC-III missiles into the regular budget at the behest of the Pan-Blue opposition, which then used its majority to delete the missiles from the regular defense budget.

19. (C) Nor does MND expect or advise any USG moves in support of the Defense Special Budget; as Special Advisor Chen put it, "We used to think U.S. intervention would have immediate results, but now we see that on this issue too much support can prove counterproductive (fanxiaoguo) with Pan-Blue legislators." VMND Tsai did tell the Deputy Director that after the December 3 election the Defense Special Budget might be able to move forward in the LY, a hope that both President Chen Shui-bian and LY Speaker Wang Jin-pyng have publicly voiced. The key on the KMT side could be, as Su Chi intimated, Chairman Ma, whose position and influence in turn may depend on the election outcome. In the meantime, the "zeroing out" of all preparatory funding means further, open-ended delay in the Defense Special Budget weapons systems.

Paal